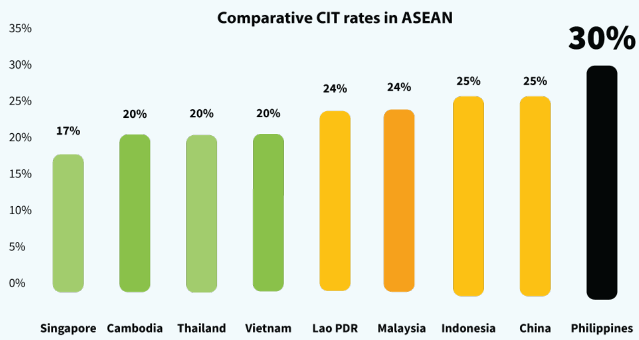
Package 2: Corporate income tax and incentives reform act

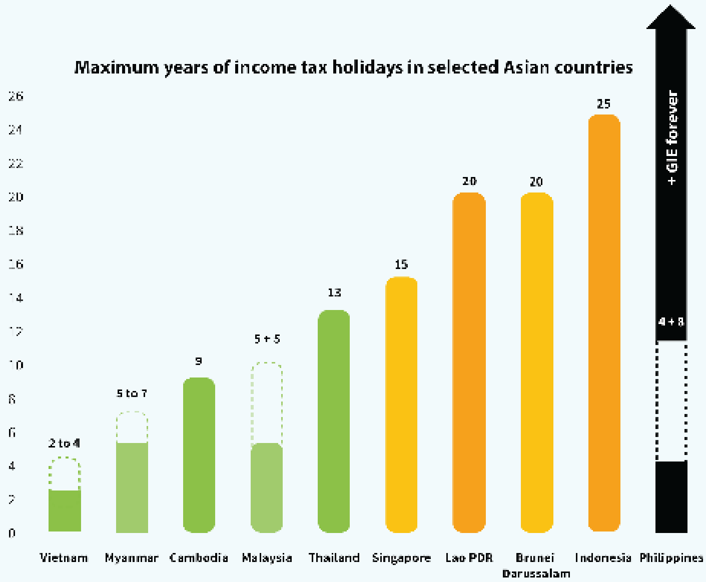
Package 2 of the Comprehensive Tax Reform Program (CTRP) seeks to make the Philippines more competitive and level the playing field for businesses through a reduction of the corporate income tax (CIT) rate and the modernization and improvement of the fiscal incentive system. It will help create an enabling environment for businesses, generate quality jobs, and spur growth that is felt throughout the entire archipelago.

The Philippines has the highest corporate income tax rate among ASEAN countries, putting the country at a disadvantage against our neighbors with regard to domestic and foreign investments.



Despite the high rate paid by our businesses, most of which are micro, small, and medium enterprises, efficiency (CIT revenues as percentage of GDP) remains very low due to leakages brought about by our outdated and complex tax incentive system.

For decades, the Philippines has been too generous in granting incentives to a few investors, in perpetuity, and without regular and in-depth review of the costs and benefits of doing so. We give away some of the most, if not the most, generous incentives in the region via a special rate of 5% on gross income earned (GIE) that is in lieu of all taxes, both local and national, and with no time limit



A recent study conducted by the DOF revealed that the Philippines gave away an estimated P441.1 billion in tax incentives to a select group of 3,150 companies in 2017, a 15.9 percent increase from the P380.7 billion in tax breaks granted to them in 2016. This is just a fifth below the annual budget of the Department of Education (DepEd) and roughly four times bigger than that of the Department of Health (DOH). The amount could have been used to build around 33,000 public markets, 46,000 kilometers of roads, 130,000 daycare centers, or 450,000 classrooms.

In principle, granting incentives is justifiable if the recipients generate a net benefit to society, such as the creation of good jobs, investing in less developed areas, and if incentives are given for a reasonable amount of time — not forever.

Modernizing the fiscal incentive system will allow the government to provide superior incentives that are performance-based, tightly targeted, time-bound, and fully transparent. It will encourage businesses to invest in industries and sectors aligned with the Philippine development agenda; create higher-value jobs; incentivize upskilling and employee training; and promote investments in less-developed areas, and areas recovering from calamities or armed conflict.

as of August 6, 2019

By lowering the CIT rate from 30% to 20% over the span of a decade, or by 2% every two years, Package 2 will bring the Philippine CIT rates closer to the tax rates of our ASEAN neighbors and help businesses—especially small and medium enterprises (SMEs)—to become more competitive. It will also encourage robust business activity, investments, and tax compliance.

Under Package 2 , investments will be granted to investors who:

1. Encourage upskilling
2. Create more and better jobs
3. Promote research and development
4. Encourage innovation
5. Stimulate domestic industries
6. Invest in agribusiness
7. Diversify our product base to higher-value exports
8. Reinvest their capital
9. Invest in less-developed areas
10. Invest in areas recovering from calamities or armed conflict

For corporations registered for incentives, Package 2 will provide additional tax deductions for:

1. Labor cost
2. Training cost
3. Purchases from local suppliers
4. Infrastructure development
5. Research and development
6. Accelerate depreciation allowance
7. Enhanced NOLCO

Package 2 will correct the present unfair situation, wherein a few companies pay discounted CIT rates of 6 to 13 percent, while most other companies—including SMEs that make up more than 99 percent of enterprises and employ a majority of Filipino workers—pay the regular rate of 30 percent.

Package 2 is pro-investment and pro-incentives. It will level the playing field and make sure that, when the Philippines grants incentives, it does so for the right reasons and the right investments.

The following organizations support Package 2 of the CTRP: Association of Carriers and Equipment Lessors (ACEL) - Davao Chapter; Davao Constructors Association Center, Inc.; Federation of Indian Chambers of Commerce (Phil.) Inc.; Foundation for Economic Freedom; International Tax and Investment Center; Management Association of the Philippines; Stakeholders of the Open Government Partnership (OGP) - Tacloban; Philippine Chambers of Commerce and Industry - Region VII; Samahang Industriya ng Agrikultura (SINAG).

Package 2 is also supported by former Secretaries of the Department of Finance; former NEDA-Director Generals Arsenio Balisacan (currently Chair of the Philippine Competition Commission), Prof. Dante Canlas (UP School of Economics); Gerardo Sicat (Professor Emeritus of the UP School of Economics); Prof. Felipe Medalla (Monetary Board Member); Monetary Board member Bruce Tolentino (former Deputy Director-General of the International Rice Research Institute and Agriculture Undersecretary); former Finance Undersecretary Romeo Bernardo; board member and former PIDS President Gilbert Llanto; and Renato Reside Jr., assistant professor of the UP School of Economics.